

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS**  
September 30, 2007 and 2006

WASHINGTON SQUARE HEALTH FOUNDATION, INC.

FINANCIAL STATEMENTS  
September 30, 2007 and 2006

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Crowe Chizek and Company LLC  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Washington Square Health Foundation, Inc.  
Chicago, Illinois

We have audited the accompanying balance sheets of Washington Square Health Foundation, Inc. (the Foundation) as of September 30, 2007 and 2006, and the related statements of activities and cash flow for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Square Health Foundation, Inc. as of September 30, 2007, and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "CROWE CHIZEK AND COMPANY LLC". The signature is written in a cursive, slightly slanted style.

Crowe Chizek and Company LLC

Chicago, Illinois  
December 18, 2007

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
BALANCE SHEETS  
September 30, 2007 and 2006

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	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 966,318	\$ 383,913
Investments, at fair value (Note 3)		
Money market funds	168,453	203,455
Certificates of deposit	770,188	957,083
U.S. Government agency issues	5,311,633	5,032,948
Common stocks	16,709,245	16,307,855
Annuity contract	438,024	296,982
Bond fund	<u>1,158,226</u>	<u>1,155,442</u>
Total investments	24,555,769	23,953,765
Accrued interest and dividends receivable	52,564	51,382
Prepaid expenses and other assets	<u>21,883</u>	<u>12,671</u>
Total current assets	25,596,534	24,401,731
Program-related investments	676,082	621,633
Furniture and equipment, net	5,776	7,552
Other assets	<u>6,971</u>	<u>6,971</u>
Total assets	<u>\$ 26,285,363</u>	<u>\$ 25,037,887</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 62,574	\$ 62,913
Employee benefit plan (Note 6)	<u>438,024</u>	<u>327,981</u>
	500,598	390,894
Unrestricted net assets	<u>25,784,765</u>	<u>24,646,993</u>
Total liabilities and net assets	<u>\$ 26,285,363</u>	<u>\$ 25,037,887</u>

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See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating activities		
Revenue, gains, and losses		
Interest and dividends	\$ 850,785	\$ 690,971
Net realized gain on investments	728,523	611,788
Other	<u>6,444</u>	<u>6,021</u>
Total operating revenue and gains	1,585,752	1,308,780
 Expenses		
Grants	926,415	1,127,787
 Management and general		
Salaries	221,416	207,806
Deferred compensation (Note 6)	110,042	81,382
Payroll taxes	12,401	13,292
Professional fees		
Investment management and custodial	80,147	65,713
Legal and accounting	37,663	72,254
Diabetes program meeting	803	334
Board fees and expenses	71,923	91,693
Occupancy	38,673	37,736
Office supplies	9,809	7,611
Insurance	38,846	34,092
Depreciation	2,435	2,730
Miscellaneous	<u>113,980</u>	<u>85,493</u>
Total management and general	738,138	700,136
 Provision for federal excise taxes	<u>31,350</u>	<u>6,605</u>
 Total operating expenses	<u>1,695,903</u>	<u>1,834,528</u>
 Expenses in excess of operating revenue, gains, and losses	(110,151)	(525,748)
 Nonoperating activities - net unrealized gain on investments	<u>1,247,923</u>	<u>1,017,371</u>
 Increase in net assets	1,137,772	491,623
 Unrestricted net assets, beginning of year	<u>24,646,993</u>	<u>24,155,370</u>
 Unrestricted net assets, end of year	<u>\$ 25,784,765</u>	<u>\$ 24,646,993</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended September 30, 2007 and 2006

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	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 1,137,772	\$ 491,623
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Net gain on investments	(1,976,446)	(1,629,159)
Depreciation	2,435	2,730
Changes in assets and liabilities		
Accrued interest and dividends receivable	(1,182)	(3,504)
Prepaid expenses and other assets	(9,212)	21,199
Accounts payable and accrued expenses	<u>109,704</u>	<u>117,228</u>
Net cash used in operating activities	(736,929)	(998,883)
 <b>Cash flows from investing activities</b>		
Proceeds from disposition of investments	3,457,645	5,955,976
Purchase of investments	(2,083,203)	(5,206,332)
Purchase of furniture and equipment	(659)	(2,981)
Repayment of program related investments	220,551	179,024
Issuance of program related investments	<u>(275,000)</u>	<u>(300,000)</u>
Net cash provided by investing activities	<u>1,319,334</u>	<u>625,687</u>
 Net increase (decrease) in cash and cash equivalents	582,405	(374,196)
 Cash and cash equivalents, beginning of year	<u>383,913</u>	<u>758,109</u>
 Cash and cash equivalents, end of year	<u>\$ 966,318</u>	<u>\$ 383,913</u>

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See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007 and 2006

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**NOTE 1 - DESCRIPTION OF FOUNDATION**

The Washington Square Health Foundation, Inc. (the Foundation) was established from the proceeds of the sale of Henrotin Hospital (the Hospital) in 1985. The Foundation supports various charitable, scientific, and educational activities and does not solicit donations.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Basis of Presentation: The Foundation's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions in accordance with the existence or absence of donor-imposed restrictions. The net assets and related activity of the Foundation are classified as unrestricted, as they are not subject to donor-imposed restrictions.

Cash Equivalents: Cash equivalents consist of short-term money market accounts, except such instruments that are part of the long-term portfolio are classified as investments.

Investments: Investment securities are reported in the financial statements at fair value. The Foundation's investment portfolio consists of money market funds, certificates of deposit, U.S. Government agency issues, common stocks, annuity contract, and bond fund. Therefore, the Foundation is subject to the risk of market volatility. Fair value of investments is determined based on quoted market prices. Investment transactions are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Program-Related Investments: In accordance with Section 4944 of the Internal Revenue Code, the Foundation is permitted to make investments that are related to its charitable, scientific, and educational activities. These investments, which are stated at cost, are anticipated to have a less than fair market value return. In the year of the investment, the Foundation receives a credit toward its distribution requirement related to its excise tax calculation (see Note 4). When the investment is recovered by the Foundation, it is required to recognize a negative distribution.

Furniture and Equipment: Office furniture and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Maintenance, repairs, and minor renewals are charged to expense as incurred.

Operations: Operating results in the statement of activities reflect all transactions increasing or decreasing unrestricted net assets except for the net unrealized gain or loss on investments.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007 and 2006

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates: In order to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America, management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reporting of revenue, expenses, gains, and losses during the period. Actual results could differ from these estimates.

Cash Balances: The Foundation's cash balances are insured under a tiered insurance program: Federal Deposit Insurance Corporation, Securities Investor Protection Corporation, or Lloyds of London.

**NOTE 3 - INVESTMENTS**

Investments as of September 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 168,453	\$ 168,453	\$ 203,455	\$ 203,455
Certificates of deposit	782,000	770,188	978,000	957,083
U.S. Government				
agency issues	5,263,039	5,311,633	4,984,781	5,032,948
Common stocks	12,936,856	16,709,245	13,726,811	16,307,855
Annuity contract	364,064	438,024	267,284	296,982
Bond fund	<u>1,166,579</u>	<u>1,158,226</u>	<u>1,166,579</u>	<u>1,155,442</u>
	<u>\$ 20,680,991</u>	<u>\$ 24,555,769</u>	<u>\$ 21,326,910</u>	<u>\$ 23,953,765</u>

**NOTE 4 - INCOME TAXES**

The Foundation has received a determination letter from the Internal Revenue Service indicating it is a private foundation under Section 509(a) of the Internal Revenue Code. In accordance with the Tax Reform Act of 1969 (the Act), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined by the Act. The Act requires that certain minimum distributions be made each year. The amount of these distributions is determined in accordance with a specified formula. Based on this formula, as of September 30, 2007, the Foundation is not required to make any distributions prior to September 30, 2008.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007 and 2006

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**NOTE 5 - LEASE COMMITMENT**

The Foundation has an office lease that expires in fiscal year 2010. During fiscal years 2007 and 2006, the Foundation incurred \$38,673 and \$37,368, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

2008	\$ 16,000
2009	16,000
2010	<u>16,000</u>
Total	<u>\$ 48,000</u>

**NOTE 6 - EMPLOYEE BENEFIT PLANS**

The Foundation provides a qualified defined contribution plan to its employees and a non-qualified deferred compensation plan to a key executive. Amounts contributed by the Foundation to these plans were \$110,042 and \$81,382, during fiscal years 2007 and 2006, respectively. As of September 30, 2007 and 2006, the total deferred compensation under the nonqualified deferred compensation plan was \$438,024 and \$327,981, respectively. The amounts for the non-qualified retirement benefit vest once the executive reaches the age of 66.